

Message Text

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ACTION EUR-25

INFO OCT-01 EA-11 ISO-00 CIAE-00 DODE-00 PM-07 H-03 INR-10

L-03 NSAE-00 NSC-10 PA-04 RSC-01 PRS-01 SPC-03 SS-20

USIA-15 ACDA-19 IO-14 EB-11 COME-00 INT-08 TRSE-00

SCEM-02 SCI-06 OMB-01 SIL-01 LAB-06 DRC-01 /183 W

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R 121730Z DEC 73

FM AMEMBASSY ROME

TO SECSTATE WASHDC 2316

INFO AMEMBASSY BELGRADE

AMEMBASSY BONN

AMEMBASSY BERN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY THE HAGUE

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY TOKYO

AMEMBASSY VIENNA

USMISSION EC BRUSSELS

USMISSION OECD PARIS

C O N F I D E N T I A L ROME 13818

E.O. 11652: GDS

TAGS: ENRG, IT

SUBJECT: ITALIAN OIL SITUATION

REF: ROME 13211, ROME 13626; ROME 13703

1. BEGIN SUMMARY: RECENT CONVERSATIONS WITH GOI OFFICIALS
ON ENERGY POINT UP THEIR GROWING APPREHENSION OVER ECONOMIC
AND POLITICAL CONSEQUENCES OF ARAB OIL CUTBACK FOR ITALY. UNTIL
EARLY DECEMBER NO MORE THAN A HANDFUL OF RESPONSIBLE GOVT AND
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COMPANY OFFICIALS APPEARED WILLING OR ABLE GRASP THE POTENTIAL

GRAVITY OF THE OIL SHORTAGE -- AND THEIR WARNINGS WERE NOT TAKEN BY GOI LEADERSHIP IN THE HOPE THAT THE CRISIS COULD SOMEHOW BE AVOIDED. OVER PAST WEEK AN AIR OF NEAR-PANIC HAS SURFACED, EVIDENCED BY PLEAS FOR US ASSISTANCE FROM THE HIGHEST LEVELS (ROME 13626 NOTAL) AS WELL AS SEARCH FOR SCAPEGOATS FOR ITALY'S IMPENDING DIFFICULTIES. (ROME 13703 NOTAL). UNPLEASANT TRUTH IS THAT -- DESPITE NOVEMBER 22 AUSTERITY MEASURES -- PROLONGATION OF CURRENT SUPPLY CUTBACKS SPELLS POTENTIALLY SERIOUS ECONOMIC AND POLITICAL DISLOCATION IN ITALY. END SUMMARY.

2. SENIOR ENERGY OFFICIAL IN MINISTRY OF INDUSTRY (RISTANGO) HAS BEEN ONE OF FEW GOI OFFICIAL TO UNDERSTAND REALITIES OF THE SITUATION, BUT HIS EXPRESSIONS OF CONCERN IN OCTOBER AND NOVEMBER WERE NOT WELCOME TO HIS MINISTER. NEVERTHELESS, FOLLOWING LEAD OF VIRTUALLY ALL OF ITS EC PARTNERS, GOI EVENTUALLY ADOPTED AUSTERITY MEASURES NOVEMBER 22, CRITICIZED INITIALLY BY MANY AS BEING TOO SEVERE. IN ADDITION TO RISTAGNO, OUR INTERNATIONAL COMPANY CONTACTS HAVE FROM THE BEGINNING UNDERSTOOD ITALY'S PREDICAMENT. ESSO AND MOBIL HAVE INDICATED TO US ALL ALONG THAT REAL SQUEEZE WOULD BE FELT IN ITALY IN MID DECEMBER. SPORADIC EARLIER SHORTFALLS WERE CAUSED BY DE FACTO RATIONING BY COMPANIES WHO, SEEING SHORTAGES AHEAD, SOUGHT TO CONSERVE SUPPLIES BY REDUCING DELIVERIES. IF THEY HAD NOT DELIBERATELY DONE SO, THE MID-DECEMBER BITE WOULD BE MORE ABRUPT AND DEEPER. AT SAME TIME, THESE EARLY SHORTAGES TENDED TO REINFORCE POPULAR VIEW THAT COMPANIES HOLDING BACK TO FORCE PRICE INCREASES. PRESS REPORTS AS FACT UNFOUNDED RUMORS THAT COMPANIES ARE HOLDING SWOLLEN STOCKS. COMPANY SPOKESMAN HAVE MAINTAINED LOW-KEY IMAGE, AN UNDERSTANDABLE TACK. WE BELIEVE ALSO THAT RESPONSIBLE ENI OFFICIALS HAVE FULLY APPRECIATED GRAVITY OF SITUATION, DESPITE COMPANY'S PUBLIC REASSURANCES THAT THE NATIONAL FLAG COMPANY WOULD CONTINUE TO GUARANTEE ITALY'S SUPPLIES.

3. DRAMATIC SHIFT AT HIGHEST GOVERNMENT LEVELS FROM EARLIER COMPLACENCY TO DOOMSDAY FORECASTS OBVIOUSLY TRIGGERED BY RECOGNITION OF MAGNITUDE OF OIL SHORTFALL AND INADEQUANCY OF GOVERNMENT MEASURES TO COPE WITH SITUATION. LAST WEEK, SECRETARY GENERAL FOR PLANNING IN MINISTRY OF BUDGET PUBLICLY STATED THAT GOVERNMENT'S AUSTERITY PACKAGE WOULD SAVE ONLY ABOUT 6 PER CENT OF

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ESTIMATED OVERALL PRODUCT SHORTFALL OF 20 PER CENT. FOREIGN TRADE MINISTER MATTEOTTI ANNOUNCED THAT MEASURES WILL SAVE 6-7 PERCENT OF 18 PER CENT CUT IN SUPPLY. THESE WARNINGS WERE SECONDED IN DECEMBER 10 MEETING WE HAD WITH RITAGNO.. SUNDAY DRIVING BAN, HE ESTIMATED, WOULD SAVE ONLY A PORTION OF OVERALL REQUIRED CUTBACKS, WITH BULK OF ECONOMIZING COMING FROM DE FACTO 20-30 PERCENT MARKET SHORTAGES FOR BOTH HEATING AND HEAVY FUEL OIL. RISTAGNO DESCRIBED OPTIMISTIC PRESS REPORTS OF GOVERNMENT-

DESIGNED SYSTEM TO ENSURE FAIRNESS OF THESE SHORTFALLS THIS
WINTER AS SHEER WINDOW DRESSING. COMPANIES IN FACT HAVE UNDERTAKEN
COMMITMENT TO ASSURE CURRENT MONTH DELIVERIES OF FUEL OIL TO
INDUSTRY AT DECEMBER 1972 LEVEL; VOLUME OF FIRST QUARTER 1974
DELIVERIES HIGHLY UNCERTAIN, WITH LIKELIHOOD THAT GOVERNMENT WILL
BE COMPELLED TO PERMIT COMPANIES TO DIP INTO MANDATORY STOCKPILES.
AS FOR HEATING OIL, HOUSEHOLD USERS BEING ADVISED OF DELIVERY CUTBACKS

OF 20-30 PERCENT WITH RESPECT TO LAST YEAR'S CONSUMPTION LEVELS.
KEROSENE, AN IMPORTANT WINTER HEATING FUEL, IS VIRTUALLY IMPOSSIBLE
TO FIND, AND WHEN AVAILABLE, BLACK MARKET PRICES OFTEN BEING PAID.

4. REPERCUSSION UPON INDUSTRY OF THESE PRODUCT SHORTFALLS
LIKELY TO BE IMMEDIATE, AND PROSPECT OF MASS LAYOFFS IS
HAUNTING GOI. ECONOMIC RECOVERY UNDERWAY THIS YEAR CLEARLY
STANDS TO BE COMPROMISED, WITH POTENTIALLY SERIOUS CONSEQUENCES
FOR ALREADY FRAGILE GOVERNMENT COALITION. BEAUDRY

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 12 DEC 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: hilburpw
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973ROME13818
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: n/a
From: ROME
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19731229/aaaaavfo.tel
Line Count: 132
Locator: TEXT ON-LINE
Office: ACTION EUR
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: ROME 13211, ROME 13626; ROME 13703
Review Action: RELEASED, APPROVED
Review Authority: hilburpw
Review Comment: n/a
Review Content Flags:
Review Date: 18 SEP 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <18-Sep-2001 by kelleyw0>; APPROVED <01-Oct-2001 by hilburpw>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ITALIAN OIL SITUATION
TAGS: ENRG, IT
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005